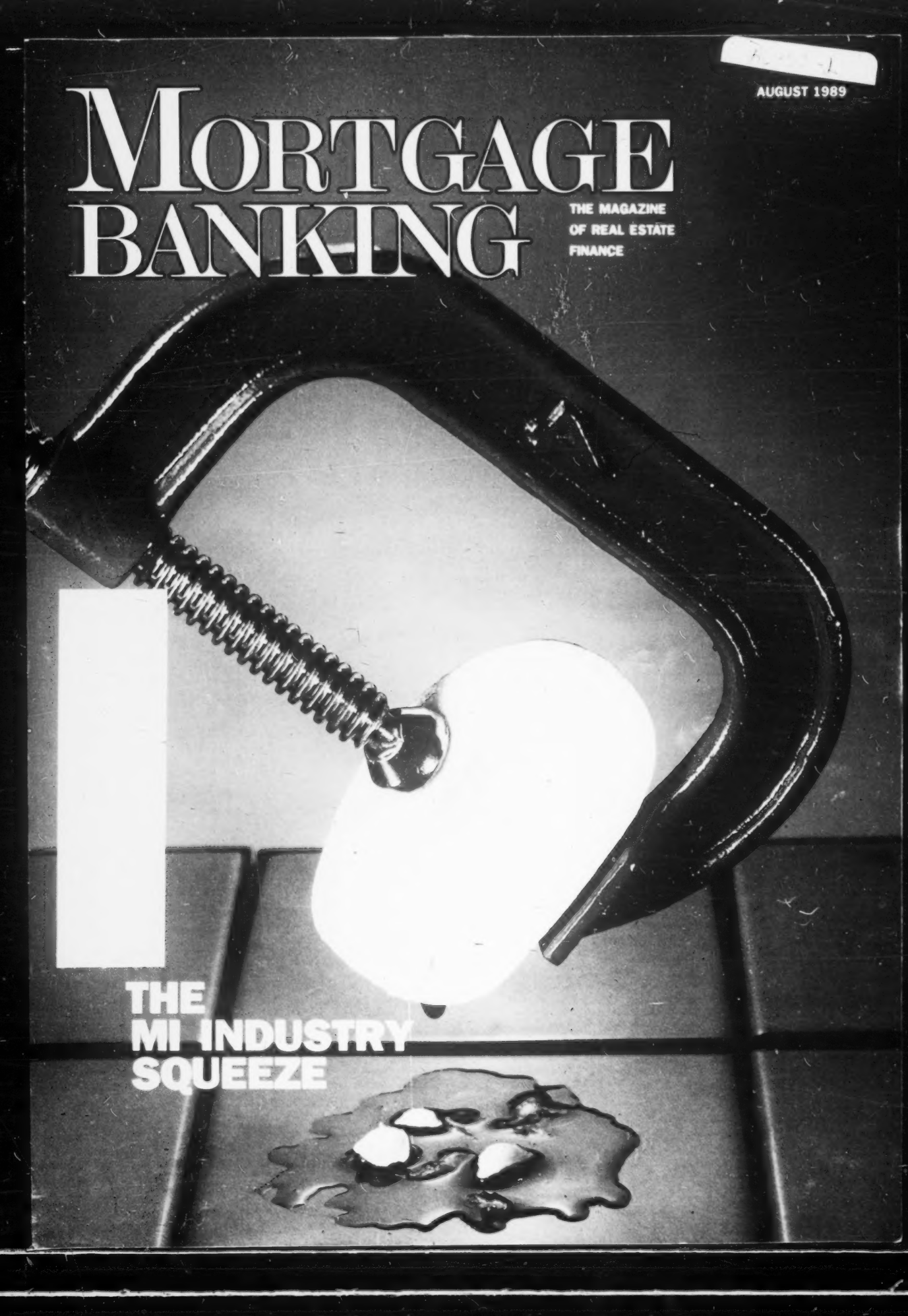
AUGUST 1989

MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE



THE MI INDUSTRY SQUEEZE

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AUGUST 1989 VOLUME 49 NUMBER 11

COVER: Private Mortgage Insurance

The mortgage insurance business thrived for a long time until the industry encountered its first underwriting loss in 1982. It was an industry basking in the sunshine until it was caught unprepared in the grip of a stark rise in claims. The industry's major preoccupation in the good time years of almost guaranteed appreciation was how to meet steadily rising sales goals. Then suddenly it was over and the MIs were being squeezed by unprecedented market forces. Now, some MIs are on their way back but the business will never return to the days when marketing was king.

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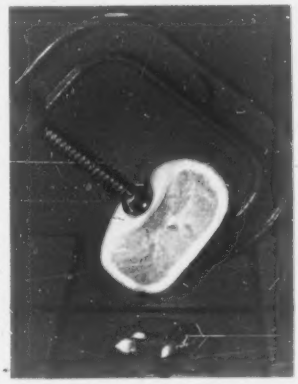
MIs: A Double Standard



Mortgage insurers went from feast to famine almost overnight in the early 1980s. They've endured a market share squeeze that began in mid-decade and since then, have watched even more business slip away to self-insuring thrifts. It's little wonder they're now in the mood to fight back.

Throughout the 1980s, MIs were hit hard by soaring claims that rocked the once tranquil and profitable insurance niche. In February 1987, Roger F. Blood, of Temple, Barker & Sloan, Inc., wrote in this magazine that the MIs went from booking total losses of "just $39 million in 1979" to a five-fold increase in losses by 1982. Blood wrote: "In 1982 alone, the loss ratio more than doubled from the previous year, triggering the industry's first underwriting loss—$40 million—versus a $70 million gain in 1981. The housing recovery and record new business volumes could not match the rampant increase in claims. By 1985, the industry loss ratio had redoubled to 120 percent, with total losses topping $1-billion."

The experience was a financial disaster for the industry. They emerged later in the decade sobered by their losses and convinced that the smart business plan was to avoid high risk. This prompted a hasty retreat from the oil belt states and from the low down payment loan. The shift is documented in HUD and MICA data that show the MI's market share in six of the hardest hit states went from 43 percent in 1984 to 9 percent in 1987. The retreat left the low down payment borrower in these states (Alaska, Colorado, Florida, Louisiana, Oklahoma and Texas) with no alternative but FHA. As a result, FHA's market share in these states went from 9 percent to 29 percent during this period.

MIs learned the hard way that the only way to manage risk is to take assertive steps to seek out low-risk business to balance the high-risk business. But the mortgage insurers, by their lobbying efforts in Washington, would have Congress deny the FHA that same opportunity to seek out a prudent measure of additional lower risk business even though it is taxpayers' money at issue, (not stockholders' money invested by choice in an MI.) By this we are referring to the MIs' lobbying campaign to block Congress from raising the FHA loan limits. Raising the loan limits to 95 percent of a market's median sales price, as proposed, would allow the FHA to continue to capture a small amount of lower risk business in healthy housing states like California. Without such a measure, FHA would be locked into serving, with no offsetting risk benefit, the higher-risk borrower the MIs couldn't wait to abandon.

Janet Reilley Hewitt
Editor

COMING IN SEPTEMBER

A Smaller Industry

The president of SMR Research focuses on the fundamental restructuring that's occurred in the mortgage banking industry during the last year and the reasons prompting some players to leave the business.

MORTGAGE BANKING
THE MAGAZINE OF REAL ESTATE FINANCE
VOLUME 49 NUMBER 11

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Circulation
BENNIE MURPHY

Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6562
Advertising (202) 861-6555
Circulation (202) 861-6992

Mortgage Banking® (ISSN 0027-1241)
Published monthly and Copyright ©1989 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association.

Subscription rates: $38 per year. $80 for three years or $20 each for ten or more subscriptions mailed to the same addressee. In Canada, $40 per year, foreign $40 per year. Individual copies, $2.75 each.

Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to MBA, Dept. 0021, Washington, D.C. 20073-0021. Letters, manuscripts, change of address and all other correspondence should be sent to *Mortgage Banking*, 1125 15th Street N.W. Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with a new address, send last magazine label.

An Industry Problem:

Inadequate Fidelity Fraud Coverage

Old formulas used to determine mortgage bankers' bond coverage amounts are proving inadequate. Uncovered losses recently have driven companies to bankruptcy.

The size and number of fidelity and fraud loss claims submitted to Underwriters at Lloyd's, London for payment under the Mortgage Bankers Bond program have remained at an alarmingly high level during the past year. This has been the case despite efforts by a large number of mortgage banking firms to reduce or control the incidence of large fidelity and fraud losses through quality control and periodic internal audits.

Furthermore, another disturbing trend has emerged that mortgage bankers now must deal with—a dramatic increase in fidelity and fraud losses that are not adequately insured.

Losses covered under MBA's bond program and paid for by Underwriters (See Chart 1) can have adverse impact on the company sustaining the loss in the form of higher premiums. But losses exceeding coverage amounts, or those not covered at all can either hamper the mortgage banker's financial wherewithal to conduct business, or put the firm out of business entirely.

During the past two years, uncovered losses have driven several companies to bankruptcy and often resulted in substantial losses for their investors as well. All in all, these losses have drained the industry unnecessarily of much needed capital.

These developments not only affect the financial health of the mortgage banking industry, but also cast a shadow on the professionalism and reputations of the individual companies involved.

A review of the fidelity bond purchasing habits of mortgage bankers indicates they normally do not assign a high priority to determining the correct bond amount or purchasing appropriate coverage. Typically, they fail to assess and evaluate the risks and exposures of their business in dollar terms, and instead, simply follow the dictates of their secondary market investors' fidelity bond formula. Mortgage bankers then typically purchase coverage in the required minimum amount. Thus, the face value of the fidelity bond often proves inadequate to cover major losses.

The purposes of this article are: to demonstrate that the current formula is no longer a reliable indicator for determining adequate fidelity, fraud and errors and omissions coverages; to suggest a new and more flexible bond formula to help reduce the incidence of underinsurance; and to recommend several new audit steps (and reemphasize the use of certain old ones) to reduce the incidence of fidelity and fraud losses.

Fidelity and fraud losses

Presently, there are more than 400 mortgage bankers in MBA's Mortgage Bankers Bond program.

Bankers Insurance Service Corp., the program's administrator, has pre-

William I. De Huszar, CMB

pared a chart (Chart 1) that provides information on the losses incurred during the past six years. Some of these claims are still being processed, or being paid by Underwriters at Lloyd's, London through their claim settlement attorneys. Losses that occurred but were underinsured, while not shown, are currently estimated to exceed the totals of all covered losses in each of the years shown.

The loss histories presented in the accompanying sidebar constitute the major types of losses that occurred repeatedly during the past three years. They are the type that normally cause underwriters to become wary of mortgage bankers' operating practices and their abilities to contain or prevent fidelity or fraudulent activities. More alarming, however, for mortgage bankers beyond the total dollar amount of losses shown in Chart 1 (many of which will be paid eventually by Underwriters) are the losses that will not be reimbursed because they were either not insured or inadequately insured. Loss amounts in all but two of the cases described in the sidebar exceeded coverage—some by a nominal amount and others by a staggering four to five times the amount of fidelity coverage. In each instance, the mortgage banker carried the minimum coverage prescribed under their secondary market investors' bond formulas.

Because the inventiveness of mortgage banking personnel bent on carrying out fraud outpaced the supervisory controls of the mortgage company and its management, losses have remained high, notwithstanding the widespread implementation of internal audits, quality control practices and compliance with the HUD audit guide. Of course, in many of the companies that were defrauded, actual internal controls and supervision were practically non-existent. Also, it should be noted that while total premiums under the program have increased during the past three years, so have the dollar amounts of losses, if not the number of loss cases.

From present indications, the final results on losses for 1988 do not promise any improvement on 1986 or 1987 results, with premium income now stabilized at the $12 million level. Therefore, if losses rise, without any premium income increases through increased coverage or added participation in the program or both, loss ratios may again increase beyond 100 percent. That could endanger current bond pricing and ultimately the viability of the program.

Actual experience has shown there is little correlation between the size of the company, measured either by the size of its servicing portfolio or its net worth, and the size of loss it could sustain. Small companies reported large losses and large ones recorded small losses.

Losses resulted usually when companies extended their operations into as yet unknown territories, or into untested activities. This was done often too quickly and firms jumped in frequently with both feet. Losses also were more likely when lines of communication were stretched beyond manageable distances, whether they involved branch offices or construction lending. Several of the most recent, sizable losses were sustained simply because management focused on aggressive origination practices, with an inadequate number of supervisors and poorly trained, new personnel; the staff was never able to cope with the large volume of new loan business.

History of the bond formula

In order to support the notion that the formula currently in use—based solely on servicing (or origination) volume—is no longer a reliable one and to suggest a new one, we must review how and why this formula was adopted initially.

Loan origination fraud schemes

Two almost identical fraud schemes, both in concept and execution, were conceived and carried out in two unrelated companies 3,000 miles apart. Both frauds (cases one and two) were perpetrated in branch offices and both involved single-family loan originations. Furthermore, both losses far exceeded $1 million, with final accounting yet to be completed.

One large company operating nationwide from the East Coast was defrauded in one of its California branch offices; the other company based in California reported similar losses in one of its East Coast offices.

In each case, the key perpetrator of the fraud scheme established a fictitious real estate firm through which fraudulent applications bearing fraudulent borrowers' signatures were processed. Bank account verifications and other credit data were verified through the services of a fictitious bank and by fictitious credit agencies. All documents were prepared and signed by an accomplice employed by the real estate firm.

In both instances, the properties did exist; the appraisals were prepared by an unscrupulous appraiser who in effect "sold" his services. The loans were insured by title companies and private mortgage insurers and closed in the names of non-existent owners. The perpetrators made one or two payments on some of the loans so that the company would not be alarmed; then they suddenly stopped paying and foreclosures and the collapse of the scheme followed.

Both losses were in the millions, and while the losses were paid under the

CHART 1

Mortgage Bankers Bond
Calendar Year Loss Claims Data (Fidelity & Fraud) (Errors & Omissions)

	1983	1984	1985	1986	1987	1988
Number of Cases Reported	31	47	37	55	41	44‡
Number of Bond Program Participants	245	273	350	350	373	411
Claims Paid & reserved and all expenses	1,708,348	3,511,896	5,065,607	10,747,220‡	8,959,190‡	5,525,664‡
Gross Annual Premium	1,761,184	2,295,416	5,723,850	9,682,180	12,272,864	12,000,000
Combined Loss & Expense Ratio	97.0%	153.0%	88.5%	111.0%	73.0%	47.0%

‡It may take several years after a loss is reported before the total amount of a loss is established and agreed upon. Consequently, the amounts reserved and subsequently to be paid for 1988, 1987 and even 1986 can only be estimated. From all current indications, losses and expenses for 1988 are expected to reach or exceed 1987 estimated claim and expense amounts.

When the Mortgage Bankers Bond was first conceived in the early 1950s and then offered in the form of a mortgage bankers blanket bond, the only common denominator found appropriate to calibrate the size of fidelity and fraud, and errors and omissions coverages for each mortgage company was the size of the firm's servicing portfolio. The blanket bond incorporates fidelity and fraud protection with errors and omissions coverage—an insurance industry first at the time.

However, when the formula was finally accepted by MBA at the urging of savings banks—the major buyers of residential loans in the 1950s and 1960s—a caveat was issued. The caveat subsequently was heavily stressed by successive chairmen of MBA's insurance committees. It cautioned that the coverage formula based on a company's servicing volume be used only as a "guide" and that the size of the company's net worth, the size of its warehouse lines, the size of the custodial funds in its care and activities such as construction lending, also should be considered as added risk factors in setting an appropriate fidelity bond amount.

The formula worked fairly well during the first 20 years of its use. But more recently, dramatic changes have transformed the entire business of mortgage lending. Particularly residential lending has shifted away from the traditional, piecemeal, loan origination process toward the mass pro-

Mortgage Bankers Bond, parts of both losses were paid under a bond maintained by the company's parent. Without this additional coverage, some of the losses would not have been paid. Both losses occurred while the companies claimed to have adequate internal controls in place. In actuality, both companies' loan origination units were overwhelmed by a surge of volume and had either relaxed internal controls or were unable to maintain active supervision of their loan solicitors and processors.

(Losses similar in concept, as well as in execution, in amounts of $500,000 to $5 million have also been reported by an additional seven mortgage banking firms throughout the past two years—some fully covered but the majority only partially covered under the bond.)

Diversion of collections and custodial funds

In two other instances (cases three and four) acts of dishonesty were discovered during an audit by a regulatory authority in one instance, and by a secondary mortgage investor in the other. In each case, it was discovered that funds belonging to investors were not remitted and custodial funds were not properly recorded, accounted for and disbursed. Also, bank accounts were not reconciled.

Both cases, which are still under investigation, reveal poor or non-existent controls, lack of management involvement in serious internal problems and the failure of the corporations' auditors to suspect, detect and report irregularities that became increasingly evident. These delays allowed nefarious practices to go undetected for a longer period of time.

In both companies, prior to, or concurrent with the diversions of funds, accounting and servicing records were in chaotic conditions. Had management been more alert and the respective company's auditors been on their toes, the size of the embezzlements could have been contained. In both instances, the dishonest employee was in effect aided by his superiors' lack of attention or knowledge of the scope and size of the problem.

Diversion of funds to non-existent construction projects

Another case (case five) involves an extensive fraud scheme involving kick backs and construction pay-outs to contractors and builders for projects where no construction had taken place. Here a trusted officer in sole charge of construction pay-outs diverted construction funds to advance his own unauthorized projects and solicited and accepted bribes and kickbacks from his contractors and clients.

Because the perpetrator was held in high regard by his peers, little supervision was exercised over his activities and his misdeeds were not discovered until one of his clients reported his dissatisfaction with the treatment accorded by the officer.

The amount of the loss after recoveries was four times as large as the amount of the fidelity coverage. Because the fraud was perpetrated over several years, the diverted funds were not missed and were reflected in lower profitability for the years involved. The final loss amount, although it reduced net worth substantially, did not bankrupt the company. The company had no internal auditor and its internal controls were non-existent. Lack of supervision, as well as the faith placed in this employee by management, contributed greatly to this fraud perpetrated over several years.

Double pledging of collateral

Through double pledging of loan documents, a corporation's cash position can easily be increased and the extra funds easily diverted.

In this particular case (case six), the perpetrator of the fraud borrowed funds from one bank using the original note and a full set of loan documents as a pledge. Shortly after the completion of this transaction, he withdrew the original note (with a plausible explanation to the bank) on "trust receipt" and used the same note and a set of duplicate loan documents to borrow again from another bank. This worked so well that in several instances the same procedure was repeated on a third occasion using a third warehouse lender.

The discovery of these transactions was delayed for a considerable time through internal maneuvering of funds using the second (or third) borrowing to repay the first, etc. Sooner or later, however, the funds available to be shuffled were depleted through diversion of money to the perpetrator's personal account and the scheme collapsed.

(Each loss case presented has been condensed and altered slightly to protect the identity of the company that sustained and reported the loss. Some of these cases are still the subject of settlement negotiations.)

duction of loans (often employing sophisticated loan origination techniques and automated loan processing assembly lines). In the midst of this dramatic change in the business, little has changed on the part of mortgage bankers in assessing new risks and exposures created by these methods and practices.

Substantial losses occurred because companies, with net worths often exceeding millions of dollars but servicing small portfolios, continued to maintain minimum coverage while engaging in a variety of risk-prone activities beyond the relatively simple process of originating and servicing residential loans.

Thus, while loan origination practices modernized, mortgage bankers generally continued to rely on the size of the servicing portfolio as their sole guide for determining the appropriate fidelity bond amounts.

The new challenge

Mortgage bankers should attempt to reduce the incidence of uninsured or underinsured losses through internal controls and audits, and through a better and more thorough evaluation of risks than is common today.

Determining the proper fidelity bond amount has never been easy. It has always been considered "an art" rather than a "science." The effort resembles a balancing act on a high-wire—finding the proper balance between adequate coverage (with appropriate amounts of deductibles) and a premium the company can afford.

Since the Mortgage Bankers Bond contains protections for two different types of risks: fidelity and fraud on one hand and "errors and omissions" on the other—it appears logical to determine coverage amounts for each type of risk separately. However, that is not current practice. The same formula is used today, as it has been for more than 35 years, for these highly dissimilar types of risks.

Fidelity and fraud protection

The current bond formula promulgated by secondary market investors calls for the amount of fidelity coverage to be based on servicing volume, or the higher of the annual loan origination volume or servicing volume.

But, recent fidelity and fraud losses

Determining the proper fidelity bond amount has never been easy. It has always been considered "an art" rather than a "science."

of all types and sizes (some of which are illustrated in the sidebar) have reaffirmed a long-held belief by many "loss watchers" that the current formula has outlived its usefulness. It is apparent that appropriate changes are needed in the methods or formulas used to determine amounts of fidelity and errors and omissions coverages.

A variety of possible solutions should be considered. Recent case histories, for instance, have indicated that the size of a fidelity or fraud loss has been greater in a company where the net worth grew faster than the servicing volume. This is the case when a company brokers loans also, or exclusively, or sells "servicing released" or periodically sells all of its servicing. Therefore, the prime indicator for the fidelity bond amount should be net worth and not servicing volume.

If a formula using a combination of three factors (net worth, origination and servicing volumes) is developed and adopted, it would be incumbent on mortgage bankers to raise the amount of their fidelity bonds gradually to conform to the amount of their net worth utilized in the business. Accordingly, the amount of their fidelity bonds should be reduced only if origination volume slackened and, if through the sale of servicing, the portfolio was substantially downsized. If appropriate, or desired, there could be a choice also of following either the dictates of net worth, origination volume, or the current servicing volume formula and then setting the amount of the fidelity coverage at whichever method provides the higher amount. Or, perhaps the minimum bond amount—now at $300,000—should be pegged at $500,000 and then scaled upward.

Of course, it remains important that the amount of the fidelity coverage accounts for exposures inherent in handling custodial funds, the use of warehouse lines, construction lending and the considerable hazards involved in operating through branch offices, especially if they are located far from the home office. Required coverage amounts are sometimes hard to quantify. But, in these cases, to err on the high side is usually a more comfortable, albeit expensive option.

Mortgage bankers involved in income property lending, whether it be conventional or FHA, and whether it entails construction lending or not, should never rely on the dictates of their servicing volume to select the appropriate coverage amount. Their basic concern should be the protection of the company's net worth and the sums that the company can employ in the business through the use of warehouse lines. Every new venture and/or project should have attendant risks carefully assessed.

Errors and omissions coverage

The current formula used to determine the amount of errors and omissions (E&O) insurance is the same as that for determining the fidelity coverage limit. This is so, even though the types and sizes of losses emanating from either source are totally different. As a result of this inconsistency, a mortgage banker servicing a portfolio of 20 multifamily loans totaling $100 million for instance, is required to carry a minimum E&O coverage of $300,000—a sum which even on its face appears inadequate. A large residential servicer managing a portfolio of nearly $20 billion would be required to carry $20 million worth of E&O coverage—a sum grossly excessive—even though the largest single loan in the portfolio does not exceed $250,000.

It is clear, then, that different minimums and formulas should be developed for mortgage bankers servicing residential loans and for those servicing multifamily/income property loans. Furthermore, the method or formula used to determine errors and omissions coverage should be separated from the process of determining fidelity bond limits.

But, in view of the fact that original loan amounts have increased considerably from the time the original minimum for E&O coverage was set at $300,000, perhaps a minimum of $500,000 makes better sense today. Since the size of servicing portfolios has grown dramatically during the past decade, the upward increase in required coverage amounts should be

tapered off as portfolio amounts reach higher levels. Required coverage should eventually be capped at a set amount. After all, the highest E&O loss under the program in this author's recollection, during the past 36 years, did not exceed $350,000.

The "Internal Audit for Mortgage Bankers," published in 1978 by MBA has provided the mortgage bankers with a meaningful guide for controlling and reducing losses. In addition, FHA's "Audit Guide" added several more requirements to help implement quality control practices. These guides provide forceful reminders of the dangers of negligence and poor supervision. They also furnish effective guidelines for the enforcement of proper operating practices and procedures.

But recent experience indicates that some other steps must also be taken to prevent these kinds of losses, in addition to strict adherence to the audit guides. These steps are as follows:

- Involve top management in deciding the fidelity bond amount and in purchasing the fidelity coverage. Only senior officers and the company's board know in the most precise detail the company's strategic business objectives and the plan for achieving these goals. They can best determine maximum exposure. It is recommended that the amount and type of fidelity bond coverage be approved for purchase officially by the firm's board and recorded in the corporate minutes.
- Strengthen formal communication with the company's outside auditors, and advise them of new activities or new methods of operation. Auditors must become thoroughly familiar with all business practices and their potential pitfalls before they start their work. Typically, they are not.
- Outside auditors, in turn, should tighten client supervision in every phase of operation, particularly in check reconciliation procedures and practices. Auditors should not allow an undue lapse of time in the reconciliation of bank accounts, especially custodial accounts involving tax and insurance payments. Similarly, care should be taken to trace cash flow within the company and review the timeliness of remittances and reports, particularly those involving principal and interest payments from mortgagors to investors.

Lenders' tightening measures should also require that all certified audit reports be prepared according to MBA's chart of accounts and that the "Uniform Single Audit Program for Mortgage Bankers" be followed whenever appropriate.

It is suggested that the auditors' certified report include positive assurance to the company's board, and to those who read and rely on the report, that all bank accounts have been properly reconciled.

- Insist that all members of the audit team read the bond and fully understand its provisions, and that they report exclusions and deductibles in their audit reports.
- Ensure that those responsible for internal audit or quality control are not backlogged in their work. Under the pressures of business, quality control steps often lag six months to a year behind—a delay that makes "quality control" meaningless and facilitates irregularities and fraud.
- Auditors employed by mortgage bankers, as well as by lenders or

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governmental agencies, should increase their vigilance whenever there is backlog in any phase or area of a mortgage banker's operations. They should not hesitate to blow the whistle immediately if irregularities or serious problems are detected or even suspected. Many major losses could have been prevented or minimized had those responsible for audit or supervisory review acted promptly on their suspicions and concerns.

- Secondary market investors and Ginnie Mae should amend their instructions regarding fidelity bond requirements to include a reminder that their "requirements" (minimum or otherwise) are designed exclusively for the protection of their interests. Furthermore, secondary market lenders should exercise closer and more frequent scrutiny of their correspondents' fidelity bond and errors and omissions coverages.

All types of losses—whether covered or uninsured—are of serious concern. Their negative impact on the mortgage banking industry as a whole, and on individual mortgage banking firms is considerable and must be minimized. This objective can be achieved through tighter internal controls or more frequent internal audits, and/or through a better method of determining appropriate coverage amounts than is presently used or prescribed.

This article offers some potential solutions. But there may be other approaches deserving consideration.

Mortgage bankers alone should not be expected to shoulder the entire responsibility for handling this concern. The mortgage banking industry in tackling these problems needs the cooperation and support of the secondary market agencies and MBA as an advocate and guiding force. Furthermore, the issues and questions raised in this article warrant further study. A potential resolution of these issues might be fostered through an MBA task force involving mortgage bankers, lenders and MBA staff, or through the efforts of MBA's Internal Management Committee. **MB**

William I. De Huszar, CMB, is a consultant with Bankers Insurance Service Corp. He served as president of the firm from 1983 to 1985 and then chairman until the end of 1988. Mr. De Huszar is the author of several books and articles on mortgage servicing.

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1989	FHA New Homes[1]	CONVENTIONAL[2] FRM	ARM	Median Cost of Funds FSLIC Institutions	1-Yr. ARM	FRM Conv.	ARMs	FRMs
MAR	11.02%	10.83%	9.24%	7.71%	10.07%	11.09%	9.09%	11.03%
APR	11.02	10.93	9.41	7.84	9.80	10.94	9.40	11.05
MAY	10.72	11.14	9.75	NA	9.46	10.55	9.30	10.77
JUN	NA	NA	NA	NA	8.83	10.04	9.03	10.20

SELECTED SECURITIES

		PRIME COMMERCIAL PAPER	U.S. GOVERNMENT				
1989	FEDERAL FUNDS RATE	(3-Month)	6-Month	1-Year	3-Year	10-Year	A-Rated Utility
MAR	9.85%	9.95%	8.85%	9.57%	9.61%	9.36%	10.37%
APR	9.84	9.81	8.65	9.36	9.40	9.18	10.33
MAY	9.81	9.47	8.43	8.98	8.98	8.86	10.09
JUN	9.53	9.11	7.93	8.44	8.37	8.28	9.65

CURRENT SECONDARY MARKET YIELDS

1989	GNMA[3]	FNMA[3]	FHLMC[3]
MAR	10.63%	10.58%	10.57%
APR	10.58	10.55	10.54
MAY	10.29	10.31	10.30
JUN	NA	NA	NA

SPREADS
(Basis Points)

1989	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
MAR	127	122	121
APR	140	137	136
MAY	143	145	144
JUN	NA	NA	NA

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage-Backed Securities						Pass-Through Securities	
1988	Commitments	Purchases	Outstanding	Issued	Commitments To Sell	Commitments To Buy	Mortgages Purchased	PCs Issued	Applications	Issued
FEB	$3,557	$905	$184,209	$4,811	$6,360	$8,411	$5,088	$4,900	$2,000	$3,990
MAR	1,771	1,469	188,071	5,473	7,134	11,227	6,373	6,037	5,620	3,902
APR	1,118	1,163	191,420	4,407	5,945	4,196	5,861	5,554	3,513	3,983
MAY	1,742	1,419	193,681	3,762	5,233	5,186	5,141	4,474	4,452	4,115
1988 TOTAL	23,435	23,110	---	54,878	41,271	70,669	44,075	39,777	58,579	56,532
1987 TOTAL	25,415	20,531	---	63,230	68,210	76,615	76,840	75,018	116,611	96,983
5 MONTH AVG. 1989	1,855	1,199	---	4,505	5,633	6,845	5,210	4,875	4,083	4,115
1988	2,658	2,244	---	3,654	2,429	5,148	2,808	2,230	3,982	3,616
1987	1,920	1,519	---	5,953	8,109	9,688	8,616	8,565	12,349	10,098

Housing Activity

Residential Structures

(Units in Thousands, Seasonally Adjusted Annual Rates)

	BY TYPE OF UNIT						BY REGION							
	HOUSING STARTS			BUILDING PERMITS			HOUSING STARTS				BUILDING PERMITS			
1988	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Northeast	Midwest	South	West	Northeast	Midwest	South	West
FEB	1,465	1,091	374	1,403	1,077	326	224	273	572	396	204	286	522	391
MAR	1,409	1,031	378	1,230	942	288	160	308	552	389	182	251	446	351
APR	1,339	1,091	248	1,334	1,025	309	206	269	525	339	201	258	506	369
MAY	**1,311**	**1,026**	**285**	**1,336**	**975**	**361**	**186**	**245**	**516**	**364**	**179**	**243**	**518**	**396**
1988 TOTAL	1,488	1,140	348	1,456	1,070	386	235	274	575	404	230	266	544	416
1987 TOTAL	1,621	1,212	409	1,535	1,114	421	269	298	634	420	272	282	575	406
5 MONTH AVG. (SAAR)														
1989	1,440	1,101	340	1,358	1,029	329	214	282	561	384	199	266	511	382
1988	1,481	1,133	348	1,408	1,054	354	274	272	557	379	266	263	510	369
1987	1,714	1,286	428	1,628	1,198	430	298	347	632	437	297	335	586	409

Home Sales

(Units in Thousands)

	EXISTING HOMES			NEW HOMES		
1988	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate
FEB	3,480	2,450	8.5	621	375	7.6
MAR	3,400	2,470	8.7	547	377	8.2
APR	3,400	2,640	9.3	597	377	7.8
MAY	**3,210**	**2,540**	**9.5**	**613**	**382**	**7.7**
1988 TOTAL	3,594	---	---	676	---	---
1987 TOTAL	3,526	---	---	671	---	---
5 MONTH AVG. (SAAR)						
1989	3,408	---	---	616	---	---
1988	3,372	---	---	651	---	---
1987	3,650	---	---	711	---	---

Value of New Private Construction Put in Place

(Units in Billions of 1982 Dollars, Seasonally Adjusted Annual Rates)

	Total[5]	1-Unit	2+ Units	Nonresidential
FEB	$281.2	$104.5	$19.6	$80.3
MAR	284.2	101.6	20.1	82.5
APR	279.7	99.2	21.5	78.0
MAY	**279.0**	**97.5**	**20.0**	**79.8**
1988 TOTAL	281.8	103.5	19.3	77.9
1987 TOTAL	283.0	100.7	22.4	78.2
5 MONTH AVG. (SAAR)				
1989	282.8	102.2	20.2	80.4
1988	278.7	103.0	19.5	77.9
1987	281.7	99.4	23.9	76.1

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Type of Unit
(Dollars in Millions)

	1-4 UNITS					5+ UNITS					NONRESIDENTIAL				
1988	Total[5]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[5]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[5]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies
DEC	$32,145	$6,459	$16,502	$8,356	$455	$4,686	$404	$2,450	$874	$628	$20,455	$224	$2,389	$11,859	$5,879
1989															
JAN	25,691	5,286	12,315	7,689	72	2,930	561	1,430	373	329	10,425	121	1,599	7,495	1,146
FEB	22,700	4,494	10,821	7,029	61	2,616	131	1,361	837	67	9,512	38	1,337	6,884	1,151
MAR	**29,978**	**5,990**	**14,841**	**8,387**	**83**	**2,361**	**155**	**1,557**	**434**	**51**	**10,272**	**63**	**1,630**	**7,030**	**1,306**
1988 TOTAL	374,401	85,307	186,237	95,474	3,198	37,876	4,526	20,379	6,988	3,553	175,754	1,032	22,953	119,942	29,714
1987 TOTAL	449,544	110,093	208,054	124,551	3,209	44,981	2,409	22,492	8,299	3,547	168,652	2,871	25,613	110,490	28,160
3 MONTH AVG.															
1989	26,123	5,257	12,479	7,702	72	2,636	282	1,449	548	149	10,070	74	1,522	7,136	1,201
1988	23,027	5,940	10,842	5,843	80	2,330	234	1,347	419	176	13,691	54	1,754	10,185	1,466
1987	36,411	10,893	14,584	10,348	330	3,953	274	1,601	701	290	11,148	359	1,687	7,516	1,507

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	TOTAL	FHA[8]	VA	PRIVATE	TOTAL		FHA		VA		PRIVATE	
					Units	Amount	Units	Amount	Units	Amount	Units	Amount
1989												
FEB	114	68	15	31	93	$6,817	56	$3,509	16	$1,223	21	$2,085
MAR	147	86	16	45	95	7,142	51	3,189	18	1,364	26	2,589
APR	135	76	15	44	91	6,974	49	3,064	15	1,127	27	2,783
MAY	**149**	**91**	**15**	**43**	**93**	**7,109**	**50**	**3,167**	**15**	**1,164**	**28**	**2,778**
1988 TOTAL	1,755	949	211	595	1,334	98,012	699	42,577	211	15,771	424	39,664
1987 TOTAL	2,340	1,211	408	721	2,282	159,668	1,320	81,881	451	33,312	511	44,475
5 MONTH AVG.												
1989	130	76	15	39	99	7,340	56	3,512	16	1,224	26	2,604
1988	152	87	15	49	104	7,468	56	3,357	17	1,246	31	2,865
1987	252	146	42	63	211	14,497	126	7,799	44	3,206	41	3,492

NA—Not Available; SAAR—Seasonally Adjusted Annual Rate

[1]Secondary market gross yields. Numbers shown for each month are the average of yields from the first day of the month shown and the first day of the subsequent month.

[2]Effective rate on loans closed.

[3]Securities for 0 to 30 day delivery.

[4]In addition to the categories of private construction shown, the total also includes these categories: residential improvements, railroads, electric light and power, gas, telephone and telegraph, petroleum pipelines, and farm nonresidential.

[5]In addition to the categories shown, the total also includes private pension funds, private MBS conduits, state and local retirement funds, Federal credit agencies, mortgage pools, and state and local investment agencies.

[7]Savings & Loans and Mutual Savings Banks.

[8]FHA applications received includes the Direct Endorsement Program.